Cost and Management

VOLUME XXVIII MAY No. 5

Published Monthly by the
SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF CANADA
Incorporated 1920
Editorial and Business Offices: 66 King St. E., Hamilton, Ontario
J. N. Allan, R.I.A., Secretary-Manager and Editor.

Subscription price to non-members, $5.00 per year. Single copies, 50 cents. Members desiring five copies or more of a single issue, may obtain them at 25 cents. Opinions expressed by articles and comment are not necessarily endorsed by the Society of Industrial and Cost Accountants.

Authorized as second class mail, Post Office Department, Ottawa.

Editorial Comment . . .

STATISTICS — "ARE WE USING THEM?"

A few days ago, two copies of "House of Commons Debates", Tuesday, April 6, 1954, were received. This copy of the "Hansard" was sent out from Ottawa obviously because it contained the Budget 1954-55. But it is not the speeches on and about the Budget which makes this copy interesting. "Budget papers presented by the Honorable D. C. Abbott for the information of Parliament in connection with Budget 1954-55" are the outstanding feature of this publication and make it an exciting source of information for the Management Accountant who, at least in smaller and middle size enterprises, is usually charged with the duty of collecting and digesting general economic information for the use by Management in its short and long-term policy decisions. The Budget papers present:

1. A general economic review of 1953, the purpose of which is "bringing together in one place and in convenient form some of the more comprehensive indicators of economic conditions prepared by the Dominion Bureau of Statistics and other Government agencies, together with brief comments."

2. "A preliminary review of the Government accounts for the fiscal year ended March 31, 1954."

Those who have to do some forecasting, usually work their way through the *Canadian Statistical Review* and its weekly supplements trying to gain as much knowledge as possible from the sometimes very complete and therefore, involved reports and figures presented there. The Budget paper "Economic Review of 1953" is, therefore, a most valuable help because it is the best and most concise economic review on Canada available and deserves to be read by every business executive who wishes to gain as complete a picture as possible of the economic conditions in the past year with its projections into the future.

The Gross National Expenditure in current and constant (1935-39) dollars appears on the first page. It shows that we have exceeded the 24 billion dollar mark or 12 billion dollars in constant dollars. This is a 100% increase since 1926 which compares with an increase in population from 9.5 to 14.8 million people and therefore indicates a tremendous improvement in the standard of living in Canada's population.

National Income and Gross National Product found on the next page show an increase of 17% since 1950. Sources of Personal Income and Disposition of Personal Income are shown on succeeding graphs and tables. Sources and Disposition of Savings, Corporation Profits, Taxes and Dividends present most informative tabulations.

Investment and Capital Expenditure has an encouraging message as public and private capital expenditure was the highest in 1953 of all the

past years, not only in current but also expressed in constant dollars. This is perhaps the place to mention another most interesting publication by the Department of Trade and Commerce "Private and Public Investment in Canada Outlook, 1954", which deserves a most searching study by the forecaster.

Although not every business man is interested in details of revenue and expenditure of our Government, the reading of the pages devoted to this subject certainly will have an educational effect on every one. The first paper closes with chapters on International Payments, Employment and Earnings and Price Trends, each one most interesting to read.

It is not astonishing that the *Commercial Letter* issued monthly by the Canadian Bank of Commerce devotes its April 1954 issue almost exclusively to the 1954-55 Budget and to a review of Construction in Canada.

The "C. & M. Round-Up" in April 1954 reproduced the most important figures of the 1954-55 National Budget of Income and Expenditures.

Anyone who wishes to bring his knowledge of public administration up to date will be well advised to give the second paper at least cursory attention because it will reveal in figures and proportions the impact of Government on our present day economy and also show the importance which certain classes of Government revenue have in comparison with others. It is most enlightening to see that the Corporation income tax produces now exactly as much revenue as the whole personal income tax. The two taxes together again provide 54% of the total Government revenue. The only other important revenue (25%) are excess duties, sales tax and other excess taxes lumped together.

The importance of Government statistics cannot be over-stressed and our Society was indeed fortunate to be able to arrange for a fair number of addresses by the Dominion Statistician, Mr. Herbert Marshall and/or his assistants to various Chapters of the Society on the work of the Dominion Bureau of Statistics. We look forward to the reproduction of one of these addresses which have certainly enhanced the standing of the Bureau's work amongst those who have attended the meetings and will form a useful guide for all those in economic life who want factual information in digestible form promptly and reliably.

C & M Round-Up . . .

By N. R. Barfoot, R.I.A.

That Mining Business

In the past, if a new mining area was discovered every four or five years in Canada, we considered ourselves lucky. Now, every month brings a new find.

New claims staked 1949 — under 40,000.

New claims staked 1953 — over 120,000.

Dollar value of metals output 1949 — $300 millions.

Dollar value of metals output 1953 — $1,500 millions.

Prospective annual dollar increase on some of the larger projects now in hand, including iron, base metals, nickel, copper and asbestos amount to 427 millions.

There are many factors behind this stepped-up pace in mine discovery such as:

Changed economic conditions have placed emphasis on new and different minerals. Uranium, for example, has aroused the speculative fever formerly associated with gold.

Air surveys using the magnetometer and scintillometer have been of immense help in locating new finds. New instruments such as the Geiger counter and extensive geological map data have helped the individual prospector.

Private funds have helped the prospector. Money has been plentiful for exploration.

Many of the latest discoveries have been in settled parts of the country enabling more people to join the rushes. This has meant a more thorough prospecting job.

There has never been so much promise in this exciting business and a 2 billion dollar annual business is in sight in a few years.

Power Project

The first hydro-electric power in Ontario was produced at Niagara Falls in 1900.

In 1950, 865,000 h.p. or 25% of Ontario's needs was produced.

In April of this year, 12 more power units will produce almost twice the 1950 production.

Here are a few statistics on this latest attempt to use the scenic falls for more utilitarian purposes:

Each power unit generates 55,000 h.p.

Twin tunnels of 45′ diameter and .5½ miles long carry water from above the falls beneath the City of Niagara Falls to the power station below.

A labour force of 6,800 men carry on the work.

Total cost — 344 millions.

15 million gallons per minute will be carried by these tunnels at approximately 10 miles per hour.

Some 15 million pounds of explosives were required on the job.

The tunnels were ribbed with steel, 38,000 tons, and lined with cement, 1 million yards.

Freight Rates

The new rulings of the Board of Transport Commissioners regarding freight equalization were partly published recently. The equalization of class rates will be effective March 1, 1955.

This will affect about 20% of Canada's 1 billion dollar annual freight.

The present temporary measure of 5% reduction on rates in Western Canada and 10% increase in Ontario and Quebec rates will be dropped.

A sample of the new rates shows that Western Canada will benefit on the hauls from Ontario and Quebec.

Rates per 100 lbs. per 100 miles run from $1.00 in the 20 to 60 mile class to 28 cents in the 2,600 to 3,300 mile bracket.

Advertising

The advertising agencies in Canada had a boom year in 1953.

The eight largest companies billed 72.7 millions of Canada's advertising money.

An analysis of the media employed by the leaders shows an average pattern of:

Newspapers	48%
Magazines	15%
Radio	15%
T-V	2%
Business papers	6%
Farm publications	4%
Outdoor	3%
Supplements	6%
Transit and other	1%

All expect an increase in 1954.

Pensions

Government assistance for the old and blind is growing. These are the current figures:

Total number now receiving pensions, 92,000.

Average monthly assistance varies from $33.42 to $37.83.

Annual cost — 33 millions.

Federal government's portion — 21 millions.

Number of blind persons receiving allowances — 8,184.

Total annual cost — 3 millions.

Average monthly allowance ranges from $37.05 to $39.60.

Maximum monthly amount paid is $40.00.

Current Articles of Interest . . .

A compilation of current articles available to members, on loan from the Library of the Society.

ACCOUNTANTS

THE ACCOUNTANT AS FINANCIAL ADVISER TO THE PRIMARY PRODUCER, by F. G. Stone and H. A. Walton — The Chartered Accountant in Australia — Feb. '54.

ACCOUNTING

ACCOUNTING AS A SOCIAL FORCE IN THE ECONOMY, by Prof. M. E. Murphy — The Accountants' Journal — Jan. '54.

ACCOUNTING FOR THE MEDIUM-SIZED BUSINESS, by L. H. Trimby — The Chartered Accountant in Australia — Jan. '54.

BUDGETS AND BUDGETING

BUDGETS AND HUMAN RELATIONS, by W. J. Byrt — The Australian Accountant — Jan. '54.

CAPITAL

WORKING CAPITAL CONTROLS IN RETAILING, by A. S. Radford — The Accountants' Journal — Jan. '54.

CHARTS AND GRAPHS

THE RATIO CONTROL CHART, by T. H. Smith — The Australian Accountant — Jan. '54.

COST ANALYSIS

HOW TO GET LABOUR COSTS FAST, by M. R. Funari — Management Methods — Mar. '54.

ECONOMICS

ACCOUNTING AS A SOCIAL FORCE IN THE ECONOMY, by Prof. M. E. Murphy — The Accountants' Journal — Jan. '54.

THE PROBLEM OF RISING COSTS, by C. D. Kemp — The Australasian Institute of Cost Accountants — Cost Bulletin — Jan. '54.

FARMS AND FARMING

THE ACCOUNTANT AS FINANCIAL ADVISER TO THE PRIMARY PRODUCER, by F. G. Stone and H. A. Walton — The Chartered Accountant in Australia — Feb. '54.

FORMS

TIPS ON FORMS DESIGN, by G. F. Davis — Business Management — Mar. '54.

HUMAN RELATIONS

BUDGETS AND HUMAN RELATIONS, by W. J. Byrt — The Australian Accountant — Jan. '54.

INDUSTRIAL PLANNING

A FACTORY-WITHIN-A-FACTORY FOR SPECIAL ORDERS — Factory Management and Maintenance — Apr. '54.

INTERNAL AUDITING

THE ORGANIZATION AND FUNCTIONS OF THE INTERNAL AUDIT BRANCH OF A LARGE INDUSTRIAL UNDERTAKING, by T. D. Hay — The Accountants' Magazine — Mar. '54.

STATISTICAL SAMPLING FOR INTERNAL AUDIT, by F. K. Wright — The Australian Accountant — Jan. '54.

LABOUR

FRINGE BENEFITS, by J. S. Forsyth — Canadian Tax Journal — Mar.-Apr. '54.

MANAGEMENT ACCOUNTING

SOME ASPECTS OF MANAGERIAL ACCOUNTING, by H. W. Martin — The Accountants' Journal — Jan. '54.

MATERIAL CONTROL

EFFICIENT MATERIAL HANDLING, by W. F. Sturrock — The Australian Accountant — Jan. '54.

SAVINGS FROM A LIFT TRUCK-PALLET INSTALLATION, A CASE STUDY, by W. P. Freemantle — The Australian Accountant — Jan. '54.

OFFICE ORGANIZATION AND MANAGEMENT

QUALITY CONTROL IN THE OFFICE, by F. E. Shelton, Jr. — Business Management — Mar. '54.

STANDARDS

COMPILATION AND USE OF STANDARD TIMES, by B. E. Grant — The Australian Accountant — Jan. '54.

TIME STANDARDS FOR INSPECTION, by W. C. Cooling and M. O'Hanlon — Factory Management and Maintenance — Apr. '54.

ADDRESS OF PUBLICATIONS

Cost Bulletin, The Australian Institute of Cost Accountants, Bank House, Bank Place, Melbourne C-1, Australia.

The Accountants' Magazine, 27 Queen St., Edinburgh 2, Scotland.

Canadian Tax Journal, 191 College St., Toronto 2-B, Ont.

The Chartered Accountant in Australia, Box 3921, G.P.O., Sydney, N.S.W.

The Australian Accountant, 430 Bourke St., Melbourne, Australia.

The Accountants' Journal, 100 Lambton Quay, P.O. Box 5043, Wellington, N.Z.

Business Management, 100 Simcoe St., Toronto 1, Ont.

Factory Management and Maintenance, 330 W. 42nd St., New York 36, N.Y.

Management Methods, 141 East 44th St., New York 17, N.Y.

PERSONALS

R. S. M. Ausman, R.I.A., a Past President of the Society of Industrial and Cost Accountants of Canada and the Secretary-Treasurer of Gurney Products Limited, has been transferred to the Montreal office of this company. A member of the Society for many years, Mr. Ausman is a Past Chairman of the Toronto Chapter and last year served as Honorary Secretary of the Ontario Society.

D. W. Ewles, R.I.A., has been appointed Secretary-Treasurer of Copeland Chatterson Limited, Brampton, Ontario. Mr. Ewles is a member of the Toronto Chapter, and was formerly Purchasing Agent and Assistant to the President.

Vincent A. Kerr, R.I.A., has been promoted to Office Manager and Assistant Secretary of Colgate-Palmolive Limited, Toronto. Formerly Assistant Office Manager of the company, Mr. Kerr is Immediate Past Chairman of the Toronto Chapter of the Society.

C. L. Ketchabaw has assumed the position of General Manager and Treasurer of Chatco Steel Products Limited, Tilbury, Ontario. A member of the Chatham Chapter, Mr. Ketchabaw was previously Assistant to the President.

E. W. King, R.I.A., has joined Canadian Chain Belt Limited, Willowdale, Ontario, as Company Cost Accountant. A member of the Toronto Chapter, Mr. King was formerly with Thor Canadian Limited.

Romeo Query, C.A., R.I.A., has been appointed Assistant Queen's Printer, Department of Public Printing and Stationery, Ottawa, Ontario. A Past Chairman of the Quebec City Chapter, Mr. Query is a member of the Ottawa Chapter and was formerly Director of Services for the Department of Public Printing and Stationery.

The Function of the Financial Executive in Industrial Relations . . .

By F. E. Wood, O.B.E., R.I.A., C.P.A.,
Secretary-Treasurer,
Marathon Paper Mills of Canada Ltd., Toronto, Ont.

The employees' misconception of the many financial obligations of their company is one of the major problems confronting management in industrial relations. This lack of information resolves itself into a problem of communications. In this article, the author discusses the financial executive's responsibility for reaching the workers with the true facts and figures and outlines the various media which can be employed in carrying out this function.

THE financial executive's function in industrial relations cannot be discussed without also considering the theory of government and some of the effects of government policy which are closely interwoven with the industrial economy of Canada.

Canadians are all pretty well sold on democratic government as it has been practised in Canada for many years. Essentially, it has been a two-party system, with control switching from one main party to the other at the will of the people. It has been largely successful because of the existence of a substantial opposition, strong, active and intelligent, who were able and willing to take over the responsibility of government when necessary. The importance of such an opposition cannot be overemphasized.

The vast majority of people in Canada are also firm believers in free enterprise. It has had its faults and its abuses; nevertheless, under free enterprise, Canadians have attained the highest standard of living in history. Other systems, no matter how attractive in theory, have failed in actual practice for various reasons.

If this standard of living is to be maintained and increased, industry must be able to produce efficiently and economically so that the goods and services can be marketed, not only in Canada, but throughout the world, in competition with other countries.

Workers and Management

The vast majority of workmen are sincere, conscientious and wish to render a fair day's work for a fair day's pay. Management, on the whole, wants to pay the employees the highest possible wages consistent with producing goods and services at a price which will be economically competitive and, at the same time, provide a modest return to the investors who have financed the business.

One might think, from the foregoing, that two separate and distinct classes of people are being discussed — the workers on the one hand and the owners, or capitalists, on the other — and that their interests are divergent and antagonistic. This may have been true a hundred years ago, but to-day, the situation is entirely different. In many companies,

the number of individual shareholders is equal to, and in some cases exceeds, the number of workers. In a great many of these cases the shareholders are also employees.

In spite of their common interests, an ever-widening wedge is being driven between workers and management. Suspicion and mistrust are not uncommon.

The steady growth of unions from local to international organizations, has greatly increased their power and scope, at the same time putting the employees further and further apart from their employers.

These facts may be unpleasant, but must be faced. There can be no quarrel with the principle of collective bargaining, the right to join unions or the right of unions to become national or international in scope, but on a purely factual basis, it is quite evident that collective bargaining is meaningless if either side decides to arbitrarily enforce demands and refuses to compromise. Differences in opinion can only be resolved if negotiations are carried on in good faith and with sincere intentions to reach a settlement. If there is no intention to negotiate, the proceedings become a farce.

Financial Facts and Figures for Employees

If free enterprise is to survive, industry must solve this dilemma. As financial advisers to management, accountants have a responsibility to advocate a much broader approach to supplying facts and figures to the employees than most companies have been doing in the past. Industry has a sound case to present. If management can get this information into the hands of the workers in a form that they understand, then, their confidence can be regained, and so maintain fair standards on all matters of wages, fringe benefits, hours, and working conditions. In the final analysis, union leaders must advocate and follow policies acceptable to the members.

Through management, the accountant must reach each employee with the true facts so that they, in turn, will see that wise and sound policies are followed by their representatives. Nothing is more dangerous than a half-truth or more difficult to combat. It is the job of the accountant to see that full information is presented so as to avoid or offset incorrect or incomplete information.

Accountants are so accustomed to certain fundamentals that they take for granted that everyone else also shares their views. Unfortunately, this is not so. To get the facts across, they must start right from the ground up, not once but repeatedly, and in as many ways as are practicable.

Before discussing the methods of communication, consideration will be given to the facts which must be thoroughly understood.

Under free enterprise, business must be able to meet competition or go bankrupt. Surely this is self-evident. But is it? It is necessary to repeat this and many other "self-evident" facts again and again.

Business is based on confidence. The public must have confidence in the product; that the price is competitive; the product satisfactory for the purpose; and that service will be available if needed throughout the useful life of the product. The workers must have confidence in management for continuity of employment; fair dealing; and, in fact, in every facet of management activity. Management must have confidence in the product sold; in their employees' good faith; in their ability to market the product at a competitive price; and to satisfy the shareholders. The shareholders must have confidence in their management to operate efficiently and protect their investment.

Money may be the root of all evil but it is very necessary to industry. The worker naturally expects his employer to have the money available to pay wages and salaries each pay-day. Does he also fully realize the necessity for funds to pay for finished goods; work in process; raw materials; supplies; manufacturing facilities; taxes of all kinds; pension plans and other fringe benefits?

Where is this money to come from? Obviously it can come only from one or more of these sources:

(a) Profits, after taxes.
(b) Bank loans.
(c) Other borrowing.
(d) Investment by shareholders.

All forms of borrowing impose further obligations on the company, in the form of interest plus the repayment of the original capital. Stock issues obligate the company to earn enough additional profits to pay the shareholder a reasonable return plus safeguarding his capital investment.

If a company is fortunate enough to have substantial profits before taxes, then the tax collector steps in with a very heavy foot. Some concrete examples will illustrate this point.

A large oil company in Canada recently earned gross profits of $87,000,000. on sales of $505,000,000. Taxes were $51,000,000., leaving $36,000,000. as net earnings. Capital expenditures in the same period were more than $57,000,000. Another company, this one American, reported gross profits of $25,000,000. but taxes were $17,000,000., leaving $8,000,000. to pay for $30,000,000. of capital expenditure, to say nothing of money tied up in increased inventories. The story is essentially the same in every growing company, but the fact remains that the vast majority of employees do not understand the situation.

Some of the fault lies right at the accountant's door, due to the very complicated and complex terminology employed in preparing financial statements. Often they are intelligible only to other expert accountants and not always even to them. How can management, employees, or the general public be expected to understand the statements if they are not clear to the financial experts?

Statements should be complete as well as clear in terminology. Many companies omit such essential information as total sales for fear

that their competitors may obtain undue advantage. Industry has a strong case to present but often nullifies its arguments by concealing essential information. A bald statement that "X" Company had profits of "X" millions of dollars for a fiscal year may create an entirely false impression unless it is related to the volume of sales. The general public, including the workers, has a pretty good idea of what they consider a reasonable margin of profit per dollar of sales. In nearly every case, the profit margin earned is much less than the average man considers fair and reasonable.

Management has a difficult problem to satisfy the workers on wages and working conditions, maintain and improve manufacturing facilities, provide adequate raw materials and supplies, take care of all other expenses and still earn enough to pay dividends to the shareholders.

Sources of Government Revenue

There is an inclination to think the government has plenty of money. The government can do this or that! Maybe it is difficult to realize the government has no source of revenue except from the taxpayers, either in the form of individual taxes or taxes provided out of profits earned by industry.

Many deplore the heavy burden of taxes, at the same time realizing the necessity of such revenue to the government, whether it is for social services such as family allowances, old-age pensions, the ordinary running expenses of the intricate services demanded by the public, or the national defence, essential to protect the Canadian way of life. In the final analysis, the productive workers, whether on the farm, in the oil fields and mines, or in industry, carry the entire load of all service costs, including governmental expenditures.

In the Federal Government alone, the number of civil servants has increased from 46,000 in 1939 to 171,449 in December 1953, excluding railways and other Crown companies. Similar rates of increase have, no doubt, occurred in provincial and municipal staffs, to say nothing of the increase in individual salary rates. The money to pay all these people has to come from industry.

During World War II and the cold war since, there has been a terrific burden of taxation which has had an effect on industry far greater than is usually realized.

The "Pay As You Go" system of personal income tax collection is a wonderful idea — for the government! Canadians are so accustomed to having taxes deducted at source that "take home pay" is now the measuring stick. This is basically unsound and dangerous.

It is hoped that taxes will be reduced if, as and when world conditions become stabilized and defense expenditures can be sharply reduced. This may or may not be realized in the foreseeable future but. regardless of such action, the other expenses of government continue to increase because of the public's demand for more and more social serv-

ices. It costs money for salaries, offices, records, systems and supplies, to collect and distribute funds. It would be very enlightening to examine the actual total cost of administering any one of the social services we now take for granted. Is it 10, 15 or 20% of the total money collected?

The Financial Executive's Role In Communications

What are the best methods of communication to place the facts in the hands of every employee? Many companies are very wisely making all levels of management and supervisory personnel, including superintendents and foremen, thoroughly familiar with the essential facts.

There are many lines of communication which may be used between the company and its employees, such as bulletin boards, company magazines or house organs, personalized letters and group meetings. To some extent, the best method or methods will vary with the particular circumstances. A recent survey, however, has shown generally speaking, that bulletin boards and company magazines are comparatively ineffective and poor media unless supplemented by other means. Information on bulletin boards is necessarily brief and lacking in detail. House organs are disliked because: (a) news is stale by the time it is published; (b) news is not well presented; (c) news is incomplete; (d) employees suspect the story is biased in favour of management.

All evidence indicates that much more information would stick with the employees if management made more extensive use of group meetings. Employees like to hear and see the "top brass" on matters of major company policy. Group meetings with superintendents and foremen also afford an opportunity for a two-way flow of information.

Employees also like to receive personalized communications from top management and welcome increased use of company letters.

There is no easy, simple solution. To do a good job will require a great deal of careful planning and not a little expense. Information must be factual, complete and unbiased. A once-a-year "shot in the arm" is not enough and may be worse than useless. It is a programme that must be carried on continuously and progressively to achieve the greatest measure of success.

OBITUARY

EMMETT CURRAN, C.A., R.I.A.

It is with great regret that we announce the death of Emmett Curran, C.A., R.I.A., Secretary-Treasurer of Kingsway Lumber Limited, and a member of the Toronto Chapter. Mr. Curran, who was forty-six, died on April 6th, at Our Lady of Mercy Hospital, Toronto.

Mr. Curran was a member of the Institute of Chartered Accountants and the Society of Industrial and Cost Accountants, and had many friends in both the public and industrial accounting professions.

We extend our deepest sympathy to Mrs. Curran and the members of the family.

Management Accounting for Small Enterprises . . .

By GEORGE MOLLER, D.Jur., C.A., R.I.A.,
Treasurer and Comptroller,
Robertson-Irwin Limited, Hamilton, Ontario.

The author considers the main function of the "Management Accountant" as one of co-ordinating the various divisions or departments of an enterprise. He describes the techniques by which this is accomplished when a small enterprise is classified as being one employing 25 to 150 persons.

THE combination of the terms "Management" and "Accounting" is a product of the second half of the twentieth century. It is, therefore, not too surprising to find that neither the second edition of the *Columbia Encyclopedia* nor *Webster's New American Dictionary* refer to this term. In addition, even the most recent Cost Accounting textbooks carry no reference under this heading. This situation sounds a note of caution because the definition of the term may have farther-reaching consequences than any one author using the term may desire.

Definition

In approaching the subject, it is natural first to look for existing literature defining the term.

Although Management Accounting has been developed on this continent, the expression has not been used, at least to the author's knowledge, in professional literature until the Anglo-American Council on Productivity published its most interesting report under this heading.[1] The following is the definition given in the report:

> "Management accountancy is the presentation of accounting information in such a way as to assist management in the creation of policy in the day-to-day operation of an undertaking.
>
> The technique of accountancy is of extreme importance as it works in the most nearly universal medium available for the expression of facts, so that facts of great diversity can be presented in the same picture. It is not the presentation of these pictures that is the function of management, but the use of them."

The term has been accepted readily in England as witnessed by articles published in the accounting literature, for instance, "Management Accounting and Public Authorities", by A. H. Marshall, City Teasurer of Coventry.[2] Since January 1953, the Institute of Cost and Works Acountants in London, England, has offered a Fellowship in Management Accountancy which should indicate for the accountants acquiring this degree that they command "the practical experience and technical knowledge that would fit them for the senior accountancy positions in industry." The fellowship is a post-graduate award.

It may be of interest to examine the headings which comprise the course which is being given in Management Accountancy for the candi-

1Productivity Report on Management Accounting, published by the Anglo-American Council on Productivity.

2Local Government Finance, March 1951, the Institute of Municipal Treasurers and Accountants, England. (Reprinted in the April 1951 issue of the Cost Accountant).

dates for the Fellowship. The following headings are found in the Fellowship Examinations Syllabus:[3] *Sources of Capital;* Investment of Capital; Control of Current Assets; Internal Audit; *Marginal Control for Top Management; Budgetary Control for Top Management; Forecasting; Reports for Boards,* Chief Executives, Bankers, etc. In addition, their course comprises Integral Accounting, Interim Accounting, and Consolidated Accounts.

If the definition quoted from the Anglo-American Council on Productivity Report is used, it would seem that only the italicized chapters really come under the Management Accountancy heading. The other topics probably represent facets of specialized knowledge not covered by the course leading to the Works Accountant degree.

It would be most desirable if a uniform definition of the term could be formulated which would be accepted not only in England, but also on this continent and in all the other English-speaking countries. The regret of the lack of a uniform terminology is shared by William R. Spriegel, who states:[4]

> "Unfortunately, Management as an applied science has not as yet developed a standardized terminology that is generally recognized. Both the industrial engineer and the cost accountant are professional men possessing genuine pride in their work. Management should encourage them in this professional pride. It is a tendency of all specialists to consider their work to be more important in relation to the work of others than is justified by the facts of a given situation. Cost Accounting is an invaluable tool of scientific management, but cannot take the place of dynamic leadership supported by technical proficiency in the particular business."

One of the five sessions of the Sixth International Congress on Accounting held in London, England, in June 1952,[5] was devoted to the "Accountant in Industry". Most of the papers actually dealt with Management Accounting, particularly the paper presented by F. R. M. De Paula, C.B.E., F.C.A., who compared the Management Accountant with the Navigating Officer who works out the course ahead and constantly checks the ship's position against the predetermined one. According to De Paula, "modern Management requires, for day-to-day operating purposes, forecasts showing in detail the anticipated cost of the business for, say, the coming year." The stress, therefore, seems to lie on forward planning which "must be the basis of all successful operations in every walk of life."

De Paula left the question open as to who would be best qualified to introduce a system of Management Accounting, the Accountant, the Engineer, or the Management Consultant. It seems that few engineers on this continent would be qualified for this undertaking unless they have made Accountancy part of their studies and practice. Whether the

---

3The Cost Accountant, January 1953.

4William R. Spriegel, Principles of Business Organization and Operation, 2nd edition, Prentice Hall Inc., New York, 1952.

5The Sixth International Congress on Accounting, 1952, printed by Gee & Co. (Publishers) Limited, London and St. Albans, 1952.

Accountant in Industry or the Management Consultant, being a professional Accountant, is better qualified would probably be a question of fact which could not be generally answered but would depend on the conditions of the enterprise and the personal qualifications of the particular person. The question of who should handle Management Accounting for a small enterprise will be discussed in more detail later.

According to De Paula, the main purpose of a Management Accounting organization is "to provide the organization machinery by means of which an industrial concern, or a group, can be controlled by its Management."

The quoted paper lists the following factors on which Management Accounting has to work:

Quantitative Capacity.

Financial Capital Requirements and the form in which it shall be provided, (a) for fixed assets, (b) for adequate working capital.

Production Program and Sales Budget.

Breakdown of the Production Budget in Terms of Facilities, Raw Materials, Consumers' Stocks and Labour Requirements, preferably expressed in Standard Costs calculated for all likely levels of activity.

Administrative Budget.

Orders received and their Relationship to Production and Sales Budget related to Inventories Position.

In combining therewith Debtors on one hand and Current Liabilities and Commitments on the other hand, the significant trends shown by the Current Balance Sheet Position should be watched.

Regular monthly Profit and Loss Accounts in condensed form, showing comparisons with previous periods and with the Budgets.

De Paula asked whether Management Accounting represents a new and specialized technique within the field of accounting. It would seem that this question should be answered positively. Although some of the techniques naturally have been developed and practised throughout the first half of this century, and more decisively within the last two decades, they have been co-ordinated and developed into an integrated system only very recently on this continent. It could perhaps be stated that Controllers, organized in the Controllers' Institute of America, are practising Management Accountancy but it should be stated in this connection that according to James L. Peirce, Vice-President and Controller, A. B. Dick Company, Chicago, the proponent of a new concept of Controllership, Accounting is only one tool in the Controller's tool box and should always be subservient to Controllership. Walter Mitchell, Jr., former Managing Director of the Controllers' Institute of America, more recently stated that it is not one of the aims of the Controllers' Institute to educate persons for Controllership and that Controllership cannot be studied in a university or in a professional course but that candidates can study Management Accountancy, and that

education in Management Accountancy is the duty of the universities and other educational institutions. In Canada, as in Britain, the professional societies will provide the syllabus for teaching Management Accounting, parts of which are already comprised in the Advanced Cost Accounting Course which is offered in the present syllabus of the Society of Industrial and Cost Accountants of Canada, leading to the "R.I.A." degree.

To clarify the scope and levels of Management served by Management Accounting, this quote from Professor C. W. Sargent's article, "Cost Accounting is a Tool of Management", will prove helpful:[6]

"Phases of Managerial Effort

The Management of an enterprise requires various kinds of managerial effort. These are provided at two primary levels of control which may be called the administrative and the executive. At the administrative level, management is concerned with:

1. Defining the general objectives of the business.
2. Formulating its general plans and policies, particularly in the relationship of aspects of the business to outside influences — economic and competitive conditions, and governmental regulations and policies.
3. Developing and improving the structural plan and personnel in the higher divisions of the organization.
4. Determining the general standards of operation, particularly those bearing upon rate of return on investment, financial position, and the direction and flow of new and replacement funds.
5. Providing motivation and unity of purpose, and harmonizing the various functional demands and requirements.

On the executive or functional level, management is concerned with:

1. Interpreting the general objectives, plans, and policies to the operating personnel.
2. Originating detailed plans and policies on various functional and departmental levels.
3. Developing and improving the structure and personnel of the subsidiary organization.
4. Formulating operating methods, and physical and cost standards.
5. Directing the operating activities in terms of the policies, plans, and standards."

Another statement of Management functions reads:

"It is commonly accepted that Management involves such basic functions as Planning, Organizing, Directing, Co-ordinating, and controlling the activities of an enterprise."[7]

The Accounting functions which assist Management in carrying out the aforequoted functions should therefore be encompassed by Management Accounting. In general, Accounting is:

"the classification, analysis and interpretation of the bookkeeping records of an enterprise . . . the accountant evaluates records drawn up by the bookkeeper and shows the results of his investigation as losses and gains, leakages, economies, or changes in value, so as to reveal the progress or failures of the business, and also its limitations and possibilities. An accountant must also be able to draw up a set of books and prescribe the system of accounts which will most easily give the desired

[6]Handbook of Cost Accounting Methods (J. K. Lasser, Editor), D. Van Nostrand Company Inc., New York, 1949, p. 26.

[7]Milan Brown, A Basis for Executive Development, Personnel, March 1953, published by the American Management Association.

information; he must be capable of arriving at a comprehensive view of the economic and the legal aspects of a business, envisaging the effect of every sort of transaction, both on the profit and loss statement and on the balance sheet; and he must recognize and classify all other factors which enter into the determination of the true condition of the business, e.g., statistics or memoranda relating to production and properties and financial records representing investment, expenditures, receipts, fiscal changes and standing. Cost accounting shows the actual cost from time to time of each service rendered, or of each article produced; by this system unprofitable ventures, services, departments, and methods may be discovered."[8]

It is interesting to note that this definition does not mention the accountant's activities which are directed to the future more than to the past or present of an enterprise.

The same encyclopedia defines "Industrial Management" as:

"term applied to highly organized modern methods of carrying on industrial, especially manufacturing, operations" . . .

"The flow of materials through the plant is supervised so that men or machines may not be idle. Constant inspection is made to keep output up to standard. Charts are used for recording the accomplishment of both men and machines and for comparing them with established standards. Careful accounts are kept of the cost of each operation . . . the principles of scientific management have been gradually extended to every department of the organization — office work, financing, marketing, and so on."[9]

Management Accounting should, therefore, perhaps be defined as all those phases of accounting which are intended to assist Industrial Management in the fulfilling of its functions. In a synopsis of an article by Johnny Becket,[10] the question "What are we seeking from accounting?" is answered as follows:

"1. We are seeking an indication of the degree of success with which business is being carried on; that is, a measurement of the fruits of business endeavour — profits.
2. We are seeking the means of promoting control over business costs and expenses.
3. We are seeking ways of measuring the relative promise or advantage which lies in various possible courses of future action."

It is perhaps possible to identify Management Accounting with the second and, still more, the third of the objectives mentioned.

"Different costs for different purposes," is a concept developed only recently in cost accounting literature. In "A Re-examination of Cost Accounting from the Managerial Viewpoint",[11] W. J. Vatter, C.P.A., Associate Professor of Production Accounting Control at the University of Chicago, stresses the diversity in the meaning of Costs and shows in a subdivision of the chapter, headed "Costs for Managerial Use", the total cost behaviour and the various cost aspects, e.g. opportunity cost, con-

[8] The Columbia Encyclopedia in One Volume, Second Edition, Columbia University Press, N.Y., p. 11.
[9] Ibid, p. 957.
[10] The Journal of Accountancy, April 1953, The Pros and Cons of Direct Costing as Contrasted with Full Costing, p. 486.
[11] Cost Accounting, Principles and Practice, by John W. Neuner, 3rd edition, Richard D. Irwin Inc., Chicago, 1950.

trollable and uncontrollable costs, differential costs, imputed costs, replacement costs, sunk and out-of-pocket costs. He stresses in the summary the fact that cost does not answer every business problem fully and that other factors may be equally or more important. Similarly, the most recent textbook on Cost Accounting,[12] devotes fourteen out of its thirty chapters to the more elaborate phase of managerial problems which depend upon Cost Accounting for adequate solutions. "Management Costs", although not dealt with under this heading in these textbooks, are given an extensive treatment in their various techniques and aspects.

Application to the Small Enterprise

In discussing the application of Management Accounting to small enterprises, a small enterprise will be considered as one employing between twenty-five to one hundred and fifty persons.

In Canada, the Income Tax Act, Section 114, Subsections 1 and 2, requires every person carrying on business to keep books of account, including an annual inventory. "The accounts must be in such a form and must contain such information as will enable the taxes payable to be determined. If the taxpayer fails to maintain adequate books of account, the Income Tax Department may specify the records and accounts which must be kept and thereafter the taxpayer must maintain these." It can therefore be stated that no business, regardless of its size, can be carried on in Canada without proper records of account. This, of course, is the primitive basis on which the system leading to Management Accounting has to be built. It is a rather long way which leads from a single entry bookkeeping system, which would be sufficient for income tax purposes, to accounting and statistical records which would be satisfactory for Management Accounting purposes.

What records would be required to serve Management Accounting purposes in a small business?

Budgetary Control

The first Management Accounting aspect is that of budgetary control. It is a valid assumption that even the smallest business enterprise needs planning from the start on and throughout its lifetime. Whether the planning is systematic and whether it is of a short-term or long-range nature depends on the managerial ability of the owner or manager of the enterprise. It seems obvious that budgetary control, at least in its basic outlines, can be applied to any enterprise which makes the effort of reducing its planning to figures predicting future sales, production, administration expense and forecasts its cash requirements and expected coverage.

It may be admitted that many enterprises are not even aware that in fact they are planning and even budgeting. The trend of our time makes

[12] Matz, Curry, Frank, Cost Accounting, Southwestern Publishing Company, 1952.

planning a more conscious management function even in the small enterprises.

A small enterprise will not be in a position to have a budget director but one person in the Management team, as small as it may be, should be designated as responsible for compiling the budget. It will be probably the responsibility of the chief accounting officer regardless of his title or appelation. The task will be perhaps even more difficult than in a large enterprise which has available sources of information on market trends and general economic developments which are accessible to the small enterprise only in the form of reports published in periodicals or newspapers. The officer responsible for the budget will, therefore, be his own economic advisor. He has to be his own statistician. He will also have to be familiar with the basic approaches to market research and have the co-ordinating capacity which is required for anyone attempting to obtain detail budgets from the different sources from which the main budget has to be compiled.

Any budget, unless it is for a new enterprise without any experience, will, by necessity, be based on past history. It will require a considerable amount of cost information, some overhead studies, particularly in enterprises which produce more than one product or service. Here, it is only necessary to mention that accounting information alone is insufficient to build a budget. Information on sales potential and expectations, on the capacity of the plant, particularly to take peak loads, the flexibility of its appartus in seasonal products, combined with a good knowledge of the potentialities of the staff, a most important element in production, will also be required. Management Accounting will provide records which will indicate, sometimes by sampling based on statistics, the answers to most of the questions which the compilation of the budget presents to the planner. Booked orders and billings will be separated by products and by territories and preferably by salesmen or distributors within the territories, which gives a historical record forming a good basis for forecasting the future. This distribution of the sales figure can be afforded by the smallest enterprise and will under all circumstances prove a very valuable source of information for managerial decisions. A recent article on electronics in accounting[13] admits that "there is no electronic computer being manufactured on a computer basis, which is fully practical for widespread use in the accounting field as of to-day." No elaborate electronic machines are required to compile this information currently in a small enterprise. There are systems which provide a cheap and very efficient method of obtaining from one card by different sorts (e.g. key sorting), the distribution of the sales figures by various aspects as indicated heretofore. All that is required to provide this information is a conversion from plain Accounting to Management Accounting by providing the various sorts and distributions from the

13J. S. Warshauer, How Does Accounting Stand with Electronics, N.A.C.A. Bulletin, April 1953, Section 1, p. 965.

outset instead of having to prepare them especially at the end of the year or beginning of a period with very much more effort and because being belated, with a very much decreased effect.

Once a budget is prepared, the step from planning to controlling is a comparatively easy one. Periodically, the forecast has to be compared with the actual results and as these actual results will, in the coming year, again have to serve as a basis for a forecast, the distribution of the figures should follow the same pattern as the one used for the budget.

Budgeting is an all-comprehensive approach. The sales budget is usually the keystone for the total budget. It is most decidedly preferable to have the sales manager prepare the sales budget with the active support of the chief accounting officer who should only serve in a staff function in that respect. The sales budget leads logically to the production budget which in turn should be prepared by the production manager. The pro-current budget is linked with the sales and production forecast and should comprise manpower. The administrative budget will likely be prepared by the chief accounting officer himself and, in small enterprises, this will not be too cumbersome a task. The administration in small enterprises is, in many cases, comparatively inflexible, in that it constitutes a fixed expense or period expense which does not grow or shrink perceptibly with changes in volume because it comprises only the bare minimum of functions which cannot possibly be cut down as long as the enterprise operates at all.

The general manager or owner, if he himself runs the enterprise, should be concerned about the capital budget which will show the necessary invested and working capital to fulfil the goals set by the sales and production budget.

The cash budget will be prepared by the chief accounting officer, based upon all the other budgets which have to be in his hands before he can determine the cash requirements and the final outcome of the plant operations. The apex of the budget work should be a Profit and Loss account for the coming fiscal period. Some enterprises, and this could well apply to the smallest as to the largest, complete their budget to the extent that they prepare a pro forma balance sheet as it should be at the end of the coming fiscal period if the forecast comes substantially true.

All this work seems rather cumbersome and perhaps even beyond the reach of a small enterprise. It is certain that the efforts spent on the preparation of budgets, particularly if budgetary control is implemented, will pay for themselves multifold in any enterprise which is not a monopoly, and has to operate in a competitive economy.

One factor should be kept clearly in mind by anyone concerned with budgeting and budgetary control. Any planning is by necessity possible only in broad aspects. Tens of dollars, dollars and cents do not matter. If budgeting goes beyond the hundred dollars point, even in the smallest enterprise, the task has not been properly understood.

The approach of "management by exception" should be applicable regardless of the size of the enterprise. Naturally, fluctuations will be absolutely larger in a large enterprise than in a small one and the Management Accountant should determine before hand the relative importance for the enterprise, taking all factors well into account. It should be self-evident that, whereas in a million dollar enterprise a variance of one thousand dollars in any one expense category may not be worth mentioning, the same variance in an enterprise with a volume of perhaps one hundred thousand dollars may be significant enough to require comment.

Analysis and Reporting

One of the most important phases of Management Accounting is the communication of the results found or compiled by the accountant to the manager. Whereas in large enterprises these reports will usually take the typewritten, and sometimes even printed, form, in small enterprises the communications will mostly be verbal. The Management Accountant has the duty to translate the results shown by accounting statements and tabulations into a language understandable and understood by the manager who has no accounting background. This phase will, therefore, consist of the analysis of the results, variances or other facts ascertained through figures and their interpretation with the aim of making them fit to serve as a basis for managerial decisions including decisions on policy. It has been stated the comptroller, who is for this purpose the Management Accountant, actually makes or can make practically all the decisions by formulating his reports properly. This, it would seem, stretches the role of the Management Accountant to the breaking point. This can be illustrated by stating that some results may lend themselves for alternative interpretations. In this case, the Management Accountant should show both alternatives and it will be the manager's duty and responsibility to make the decision as to which of the two alternatives should be followed. The Management Accountant has merely to present the facts properly and may give his opinion why any one of the alternatives recommends itself or would be inadvisable to implement. He should, however, carefully avoid creating the impression that he has the ambition to infringe on, or even worse, take over the manager's responsibility.

Management Accountant as Co-ordinator

Often the chief accounting officer of an enterprise who masters the Management Accounting techniques will find himself in the role of mediator and co-ordinator between the various divisions and/or departments of an enterprise. By his faculty of presenting the facts, based on figures and reports, he will frequently imply whose position is correct and whose position requires adjustments. Again the Management Accountant will have to be careful to avoid assuming the role of an

umpire, which role belongs to the manager. Many a lawsuit has been decided in fact by the testimony of the expert witness but the judgment still has to be pronounced by the judge. The Management Accountant is the expert witness and should not assume the role of the judge, which is the prerogative of the general manager. In a small enterprise, the management team consists of a handful of men and their contacts are personal and an almost daily routine. The Management Accountant will therefore have to master the technique of communication in order to exercise his co-ordinating function properly, which function stems from his faculty of ascertaining and presenting facts based on figures which have been computed under his direction in his department. In a small enterprise, not the written report but the spoken word will be the medium of communication between the Management Accountant and his team-mates.

General Applicability

How does Management Accounting differ in large organizations from the application in small enterprises?

The Society of Industrial and Cost Accountants of Ontario devoted its 10th Annual Conference in 1951 to accounting problems in small enterprises. One of the speakers said on that occasion that "there is no particular need to confine comments on Management purposes to small businesses since they are essentially the same for all apart from mechanical differences in the nature of the organization itself."[14]

Cost Control

Another important managerial aspect is that of Cost Control. The basic procedure is to compare the results of one accounting period with the other, in the most primitive stages, the result of one year with the preceding one. From there to the comparison of monthly statements with the preceding month and the same month in previous years is only one step.

In the framework of the aforementioned 10th Annual Conference of the Ontario Society, the plant accountant of an enterprise employing one hundred and fifty to three hundred people presented a "case study of small business controls".[15] This study showed various facets of cost control, including plant (capacity) utilization, maintenance control, procedure control.

All these controls are part of Management Accounting to the extent that accounting has to provide the records which permit the exercise of these controls.

The introduction of a standard cost system into a small enterprise is a question which is frequently discussed. The size of the business has by

[14]A. Stuart Hallamore, C.A., Meeting Management Cost Problems in a Small Business, Cost and Management, July-August, 1951.

[15]N. R. Barfoot, R.I.A., Case Study of Small Business Controls, Cost and Management, July-August, 1951.

necessity no bearing on the usefulness of standards. Henry Ford stated once:

> "In our own work we have always found that if our principles were right, the area over which they were applied did not matter. The principles that we use in the big Highland Park plant seem to work equally well in every plant that we establish. It has never made any difference with us whether we multiplied what we were doing by five or five hundred. Size is only a matter of the multiplication table anyway."[16]

The following statement applies to all enterprises and is not confined to big ones:

> "We know that it is primarily through control of costs that profits are attained or increased. Otherwise, the waste, ignorance, errors and ineptness, of poorly trained or inadequately supervised factory employees may dissipate the company's potential net earnings before the product ever reaches the market."[17]

The installation of a standard cost system is, of course, a major undertaking, but once installed, the system can be operated with compartively small continuous expense.

The question, "Who should install a standard cost system in a small enterprise?" is a part of the general problem of who should be the person or persons best suited for introducing and exercising Management Accounting. It has already been realized that the so-called big enterprises are in many cases actually only combinations of a multitude of small enterprises, divisions, departments, etc., and which, if taken separately, are not often bigger than the so-called small enterprise operating independently. If, therefore, standards can be applied to a small department in a big enterprise, they can also be applied to a small enterprise. The difficulty is only that the small enterprise could not afford to maintain a separate Standards Department with specialists equipped not only to operate a standard cost system but to install it and adapt it to the changing needs of the day.

The Management Accountant for a Small Enterprise

There is a crying need for people who are or will be well grounded in the problems and techniques of Management Accounting and will provide consulting services for small businesses at reasonable costs. These consultants could install the Management Accounting system and then supervise its application on a permanent continuous basis at a retainer fee similar to the audit function performed by public accountants. It would, in fact, be a good and commendable combination if the public accountants would grasp the opportunity of extending their services from auditing to Management Accountancy counselling. Certain starts of this development can be noticed in the fact that some large public accounting firms offer, either in their own framework or by associated industrial engineering companies, these services, although they are mostly aimed, at present, at the large enterprises which can well

16 Fred Dearmond, Executive Thinking and Action, McGraw Hill Book Co. Inc., New York, 1946.
17 Stanley B. Henrici, Standard Costs for Manufacturing, McGraw Hill Book Co. Inc., 1947.

afford and be better off having Management Accounting experts on their own staff.

Departmentalization

If the enterprise is a very small one, the division of labour in the Management will have not become far-reaching and the fine distinctions between functions like the comptroller, treasurer and office manager will not exist because these functions will probably be exercised by one and the same man. The same concept applies to the production part of the enterprise if it is a manufacturing company. Accounting by responsibility will not require too many splits into departments and self-accounting sections because the responsibility will be resting in the hands of not more than a handful of men. The split in accounting by responsibility, therefore, will not go father than to approximately five functions for the most part. These functions will probably be sales, finance, production, administration and purchasing. Finance may include administration and purchasing but in some cases, particularly in merchandising enterprises, purchasing will be treated as a separately managed function. Cost Control will not, therefore, require too many departmental accumulations and reports. In any case, particularly small enterprises should be wary of distributing their costs farther than to the points of responsibility. It makes no sense to build a cost and accounting system by allocation of costs to departments or even to products if the costs have no direct bearing on the department or the product and are allocated only for the purpose of absorption. This sounds and probably can be construed as advocating Direct Costing for small enterprises. In this connection, it bears mentioning that the National Association of Cost Accountants has recently issued a special pamphlet on Direct Costing.[18] From this pamphlet the following paragraph seems significant:

> "In order to assist management in controlling costs and in comparing costs and profits when deciding between alternatives, flexible budgets, break-even charts, and marginal income analyses were developed by many companies to supplement the regular accounting procedures for costing production. These techniques for analyzing and interpreting the influence of volume on costs and profits were all based upon a classification of costs into the books and to show the desired cost-volume-profit relationships in the regular accounting statements. A step in this direction had already been taken where flexible budgets were in use for cost control purposes because fixed and variable costs were accumulated separately and shown separately in departmental cost statements. Under these circumstances the same basic classification of costs by variability with volume was extended to the processes of costing production and the results shown in the income statement as well as in departmental cost control reports. In some, but not all companies, the process was also extended to include costing of inventories at variable manufacturing cost."

[18] N.A.C.A. Bulletin, April 1953, Section 3, Research Series No. 23.

Summary and Conclusion

Budgets and controls are tools for Management Accounting. Management Accounting in turn will serve the manager in making all policy decisions, particularly in pricing the products and exercising operational controls.

Small enterprises do not need mechanization to the extent to which big enterprises have to rely upon automatic machines but can, particularly if they keep flexible in their personnel problems, well manage to exercise and operate Management Accounting with the human element assisted by adding machines and calculators of the simple type.

Literature on Management Accounting in small enterprises is practically non-existent. The introduction of Management Accounting systems into small enterprises is probably a development which we will witness within the near future but which cannot be hailed yet as an accomplished fact on this continent. Certain techniques which are used by Management Accounting are practised but that is in no way a proof that Management Accounting has actually started to function in small enterprises because Management Accounting has to be considered a movement and system "providing the organizational machinery by means of which an industrial concern, or a group, can be controlled by its management."[19]

Although De Paula in the quoted article deals as an illustration with the case of a widespread concern, it seems evident that the techniques are applicable and the system possible in a smaller enterprise. In this treatise only brief consideration has been given to the Budget Forecast and Control Aspects of Management Accounting and a number of facets of the system were merely indicated. If these modest considerations lead to fruitful discussion, they cannot fail to assist in the development of this youngest, but most ambitious branch of the science and art of Accounting on this continent and in the English-speaking world.

In conclusion, not only can small businesses afford Management Accounting but, on the contrary, they cannot afford to go without it.

It may be fitting to close this outline of the application of Management Accounting in the small enterprise with the exhortation found in the repeatedly quoted paper presented by De Paula at the Sixth International Congress on Accounting.

> "The need within industry for accountants skilled in management accounting is clear and experience already gained has proved that this technique is capable of increasing productivity in a marked degree. There is, therefore, a challenge to accountants to help this movement in every way that they can, and thus increase their services to the community."

[19]F. R. M. De Paula, Ibid, p. 248.

Effective Reporting to Management . . .

By W. E. Jackman, B.S. (C.E.),
Staff of the General Controller,
Eastman Kodak Company, Rochester, N.Y.

All levels of management from the top executive to the shop foreman require financial reports to operate at maximum efficiency. The author, in this article, presents a case history to illustrate what can be achieved through imaginative reports, provides an outline of important control reports for each level of management and presents some highly practical "do's and don'ts" for effective reporting.

"EFFECTIVE" has been prefixed to the title of this paper for a reason. In defining this word the *American College Dictionary* lists the following:

"1. Producing the intended or expected result.
2. Producing a striking impression.
3. Employing the skillful use of energy or industry to accomplish desired results with little waste of effort."

Frequently, members of the cost accounting profession or representatives of management present inspiring discussions on the important part that the accountant must play in modern industry. In this paper, however, some of the techniques which the accountant may employ in making these reports to management more *effective* will be discussed to assist him to gain his rightful place on the management team. Three important phases of this subject will be considered:

1. The various "receptive levels" of management and how to present information to each so as to motivate action.
2. The vital control reports required by each management level to operate at maximum efficiency.
3. The "do's and don'ts" to achieve effective reporting.

Presentations to the "Receptive Levels" of Management

Anyone who has had the problem of reporting to management on any phase of industrial operations is well aware that careful penetrative thinking and absolute self-control are prerequisites in achieving his aim of effective reporting. In the chemistry laboratory, certain formulae and laws in mixing elements together can be followed and the results of these operations can be forecasted with reasonable certainty. This is not true, when certain factual data are mixed together in a report for consideration by management at varying levels. Human reaction is complex both in form and intensity. Too frequently, there is evidence of executives relying on emotional stimuli or "hunches" to arrive at decisions. Such decisions are often proven wrong. Careful analysis of the individual or individuals who will use the reports must, therefore, be made and care must be taken to present the data in such a manner as to motivate cool, collected decisions devoid of the pressures of emotional stimuli.

The accountant must also study and know himself. What methods and tools for reporting are best fitted to his personality? What are his capacities for effective presentation? What studies is he carrying on to improve his weak spots? These questions are reviewed in the following consideration of a specific case history:

General Manager A has been newly appointed by the X Corporation which operates four manufacturing plants. He has a successful background of production experience and more recently has acted as a divisional sales manager. He is definitely the extrovert type, self-assured, dynamic and aggressive.

The chief competitor of the X Corporation has announced a price reduction on an item comparable to the most profitable one in the X Corporation line. General Manager A calls in his Sales Manager and Comptroller and asks their advice as to the best course to meet this competition.

How does the Comptroller react? He is a capable individual and has volumes of charts, cost reports and sales statistics from which conclusions can be drawn after careful examination and analysis. He has recently returned from a tour of the plants of the X Corporation. He has observed that the handling and flow of materials and sub-assemblies is extremely complex. He believes that with certain changes in machine layout and the use of conveyors material reductions could be made in manufacturing cost.

The Comptroller is not an eloquent speaker and generally not very aggressive in selling an idea. He has had several conferences lately with General Manager A and found him rather unresponsive to either charts or comprehensive tabulations of data. He knows that a careful study must be made of all available data. He also knows that he must develop a new approach which will result in a striking impression on General Manager A. He promises the latter an answer in one week, and goes back to his office and coolly outlines a plan of action.

Securing a good camera man, the Comptroller goes to Plant B and films the complete handling and manufacturing cycle of the competitive item from the moment raw material enters the yard until the packed finished product is loaded on a truck bound for the distributor's warehouse. Careful check is made of elapsed time at each move and at each operation. A reputable materials handling expert is hired to suggest changes and an estimate of their cost. Working with him the plant engineer, production manager and cost accountant prepare a careful estimate of the cost of manufacturing the item under the revised plans.

One week later as he had promised, the Comptroller had a conference with General Manager A and presented four exhibits in the following order:

1. The film showing all the complexities of the present cycle of handling and manufacture.

2. A one-page summary of proposed changes in layout, machines and handling equipment and the estimated expense and capital outlay.
3. A comparative chart of elapsed times under present and proposed methods of manufacture and handling.
4. A chart to which was attached a dime, six pennies and four pennies. These coins were inserted in the appropriate place in the following statements:
   (a) We can reduce unit costs (ten cents) per item.
   (b) We can reduce selling prices (six cents) per item.
   (c) We can increase gross profits (four cents) per item.

This presentation resulted in immediate action to carry out the proposal because the Comptroller had:

(a) Studied his General Manager carefully.
(b) Seriously appraised his own capacities and limitations.
(c) Made a striking dramatic presentation.
(d) Brought detailed factual data into "sharp focus".

What are the "receptive levels" of management and how may information be furnished to each to stimulate and obtain effective action? Usually, when management is considered, it is visualized in a sequence of control from the top level to the intermediate level and then the shop level. By reversing the sequence, the attention is focussed on management and related staff services at the following levels and in the following order:

1. *Department foremen or managers* and related services of personnel and medical, purchasing, receiving, stockkeeping and stores, maintenance, engineering, tool, production control, quality control and accounting departments. No significance should be attached to the order of naming these allied service departments for it is probable that each one plays an equally important part in the efficient operation of the manufacturing department. They have been named merely as a preface to indicate that the accountant must obtain and interpret factual data from each.
2. *Intermediate management*, such as managers of physically separated plant units or superintendents of divisions in larger plants organized for the manufacture of diversified lines of product. The allied service departments mentioned previously plus the research and development and statistical departments influence decisions at this level.
3. *Distribution management* includes sales, advertising, shipping and traffic, and warehouse departments. Report information influencing this group will originate largely with personnel, production control, quality control, research and development, statistical, legal and accounting departments.

4. *General management and the Board of Directors,* which are of course dependent on all the service departments named for the information which will motivate and support their decisions and action.
5. *Indirect management* consisting of the employees, the stockholders and the general public.

What techniques of presentation and reporting should be employed with each of these "receptive levels" of management?

Department Foremen or Managers

How can information best be reported to department foremen or managers? At this point, the nature or content of reports will not be discussed but consideration will be given to techniques which will motivate action to attain desired results such as better working conditions, better handling, better housekeeping, increased production, less scrap and attendant lower costs.

A weekly conference should be held (not over two hours in length) in which the accountant or cost analyst presents basic control facts and figures and interprets and suggests situations requiring action by the foreman. The presentation should be made verbally augmented by charts and pictures, if such media will save time or are found more effective in obtaining favorable action. There should be a summary form on preferably one and never more than two pages, letter size. This should be presented to the foreman for his use during the discussion following the presentation and for his retention for reference after the conference. The same pattern should not be followed each time there is a meeting with the foreman. Know what his most important problem is at that time and dramatize the sound suggestions for him.

Intermediate Management

In reporting to intermediate management one has to consider not only the individual, but the geographical location of the plant or division. If control information is prepared in a central office and submitted to managers of several widely separated plants, it is a good idea to submit reports, charts and digests once a month on loose leaf paper bound in temporary folders. These folders provide a suitable cover for the reports during their current review and later, refiling by any desired classification is expedited. The chief accounting officer should visit each plant at least six times a year, at which time he should spend at least a week, if possible, becoming familiar with and appraising the operating problems of the plant manager.

If a large plant is divided into several divisions for the manufacture of diversified lines of product, then reports should be presented in person by the conference method once a month. Unless it is found that the superintendent definitely does not react to certain media, vary the presentation, using reports blown up by projection or lettered on large cards displayed on an easel, graphic charts, slides shown on a table

viewer or table display models. Here again, it would be advantageous for the chief accounting officer to spend at least two days every other month actually in the division getting first hand information on its problems.

In either of these arrangements, if an idea comes to mind or a situation arises which only the manager or superintendent can correct, use the telephone, state the facts briefly, suggest a course of action for him and offer to present supporting data in writing, if he wants it.

In both cases give the manager or superintendent only such information about service departments and functions that has a bearing on the manufacturing operations or involves action within his sphere of responsibility.

Distribution Management

Generally speaking, executives in the group which has been labelled "distribution management" are interested in comparative data and react quite favorably to graphic charts. Present them in person at a monthly conference of the entire group. Much of this report information is of common interest to the entire group and thus, much time may be saved by bringing these executives together.

General Management and the Board of Directors

General managers and the personnel of boards of directors tend to vary widely in their receptiveness to factual information; therefore one can only profit by his own mistakes in the form of presentation. Monthly or periodic reports should be made to both and, preferably, in person. Make all reports as brief as possible, but be prepared to answer questions. If a certain course of action is desirable, present the suggestion in such a way that they will feel that it is really their own idea and be motivated to act promptly. Here again, graphic charts and slides may be employed profitably to tell the story.

Vital Control Reports for Varying Management Levels

To operate at maximum efficiency, the various levels of management require vital control reports. Although the basic content will not vary appreciably, the form of presentation of this data should be a constant challenge to the accountant's imagination and ingenuity. Consequently, the accountant must make a continuing review of his reporting. As a guide in this review, the following outline of important control reports is suggested for each of the management levels which have been considered:

Reports for Department Foremen or Managers

1. Comparison by cost centres of standard and actual direct and indirect labour hours and dollar cost with explanation of significant variances.
2. Lost time reports in hours and dollars by reason or cause.

3. Operator efficiency report of performance against standard.
4. Report of any significant changes in specifications or raw material.
5. Report from stock or stores of any low points which might affect production in the following week.
6. Report from the maintenance department on any observed machine conditions which may involve shutdown for repairs or any planned utility shutdown, which would affect the manufacturing department.
7. Report from engineering and tool departments on any current changes affecting production.
8. Comparative report of actual and scheduled units of production.
9. Report of allowable and actual scrap.
10. Current and year to date department expense compared with the budget and supported by an analysis of principal variations.

Reports for Plant Managers or Division Superintendents

Information should in all cases be shown by department totals with a brief analysis of major variations of actual from standard or schedule.

1. Direct and indirect labour report.
2. Lost time report.
3. Operator efficiency report.
4. Inventory of principal raw materials in units and indication of number of months' supply on hand and on order.
5. Summaries from maintenance, development, engineering and tool departments of current program and one month's forecast.
6. Comparison of actual and scheduled production.
7. Report of actual against standard scrap and estimate of salvage value.
8. Current month and year to date actual burden compared with budget supported by statement of reasons or causes for major variations.
9. Report of major general business trends, results of market studies, local employment trends, sales trends and actual sales compared with estimated sales in units.
10. Report of current and to date capital expenditures.

Reports for Distribution Management

1. Direct and indirect labour report in terms of number of people and dollars for each general labour classification for each department in this group.
2. Lost time report by reason.
3. Finished goods inventory in units of major product lines compared with current month's sales and forecasted sales for next month.

4. Summary of current and forecasted program of research and development department.
5. Comparison of actual and scheduled production.
6. Comparison of actual and budgeted expense for current month and year to date with analysis of variances.
7. Statistical reports on business conditions and trends similar to those outlined for plant managers.
8. Current and to date report of sales volume by sales mix or gross profit classification.

Reports for the General Manager and Board of Directors

Information should be given by plant or division totals with brief comment if variances arise. If these are attributable to a situation in a specific department, the causes should be noted.

1. Comparison of actual with standard and budgeted direct and indirect labour.
2. Total cost of lost time by reasons or cause.
3. Dollar inventory values and forecasted turnover of the principal raw materials, work in process and major products in finished goods.
4. Brief summary of development and research progress.
5. Production performance as a percentage of scheduled production by major lines.
6. Comparison of actual and budgeted expense by major expense classifications for the current month and year to date.
7. Statistical reports of business conditions and trends with emphasis on the company's performance within its industry.
8. Report of current and to date capital expenditures.
9. Comparison of actual and forecasted cash budget for the current month and year to date.
10. Chart of forecasted net profits before and after taxes compared with actual.

Reports for Employees, Stockholders and the Community

Management decisions are strongly influenced by and, in turn, exercise a tremendous impact on the ideas and opinions of the plant employees, the stockholders and the citizens of the community in which the plant is located. It is, therefore, very important to effectively present reports of operating results to each of these groups.

1. Reports to employees should be made through employee meetings, the plant newspaper or magazine, bulletin board notices or direct mail one page presentations.
2. Reports to stockholders are generally made through direct mailing of the annual report. Considerable progress has been made in recent years in making such reports more readable and understandable by simplification of accounting terms and figure

presentation. The use of graphic charts and photographs has added much to the attractiveness and interest in annual reports.

3. Reports to the community should be made through carefully edited press releases. The annual report is always news. During the year there are also many stories of plant operation, which would have news value and would improve public relations if published locally. Paid display advertisements dealing with your annual report of operations probably pay intangible dividens in goodwill.

The Principal "Do's and Don'ts" of Effective Reporting

Perfection in reporting should be a constant objective even if it is never achieved. However, the accountant who continuously critically analyzes his reports to management will make a definite and worthwhile contribution to the welfare of his company and no doubt be rewarded by respect and increased recognition.

Every accountant should make an honest appraisal of how, in his own opinion, each report compares with the following "Ten Commandments" of effective reporting:

1. What is the report objective?
2. Is this objective worthwhile?
3. Does the report contain data unrelated to the objective?
4. Is the report designed to fit the capacities of those who use it?
5. Does the action suggested match the responsibility of the user?
6. When was the last time that the form was changed or the content varied?
7. Could the form, terminology or content be simplified and still achieve the objective?
8. Are controllable factors emphasized?
9. Are the points of major significance dramatized?
10. Should the report be discontinued, revised or continued?

There are five suggested "do's" and five suggested "don'ts" for effective reporting. They are:

Don't

(a) Miss important facts.
(b) Provide a volume of "undigested" figures.
(c) Make the presentation stereotyped.
(d) Present complicated or unreadable charts.
(e) Recopy a lot of accounting information.

Do

(a) Understand the purpose or objective.
(b) Use simple understandable terminology.
(c) Dramatize by highlighting exceptions, causes and recommended action.
(d) Present reports personally whenever this is possible.
(e) Make reports brief and vary the form frequently.

Student Section . . .

FUNDAMENTALS OF COST ACCOUNTING — 1953 EXAMINATION

Comments by A. V. HARRIS, C.A., R.I.A.

QUESTION IV (20 marks)

The Pyrone Co. Ltd. uses a process cost system to determine the cost of materials manufactured.

As at their fiscal year end, 30th April, 1953, the material in process in department A is valued. on a first-in, first-out basis, at $7,200.00, made up as follows:

Units in Process	1,000
Direct Material Content — 100% Completed	$4,500.00
Direct Labour Applied — 50% Completed	1,500.00
Factory Service Applied	1,200.00
	$7,200.00

During May 1953, 10,000 additional units were put into process in Department A. All the materials required, costing $49,000.00 were charged to Department A. The direct labour applied during May amounted to $29,700.00. 8,000 units were completed during the month and transferred to the next department. Of the units remaining in process in Department A, the direct labour is estimated to be 50% completed.

REQUIRED

(a) A statement showing the total and unit cost of direct materials, direct labour and factory service for the units completed during May 1953, and for the units in process at 31st May, 1953, applying factory service to production at the rate of 80% of the direct labour costs.

(b) Assuming that on 1st June, 1953, after the transfer of finished units from Department A has been recorded, it was found that factory service during May should have been applied at a rate of 60% of direct labour, give the journal entries necessary to adjust the cost records, by allocating the difference to Work in Process and Finished Goods.

SOLUTION TO QUESTION IV

The Pyrone Co. Ltd.

Production:	Units
Units in Process — April 30th, 1953	1,000
Put Into Process During Month	10,000
	11,000
Units in Process — May 31st, 1953	3,000
Units Completed and Transferred	8,000

Production for Month in Terms of Completed Units

	Material	Labour	Factory Expense	Total
Completion of W.I. Process as of April 30th, 1953		500	500	
Started and Completed During May	7,000	7,000	7,000	
Work in Process — May 31st, 1953	3,000	1,500	1,500	
Total Production in Terms of Completed Units	10,000	9,000	9,000	
Cost of Production — Month of May	$ 49,000.00	$ 29,700.00	$ 23,760.00	$102,460.00
Cost of Production per Unit	$ 4.90	$ 3.30	$ 2.64	$ 10.84
Cost of Units Completed				
1,000 Units in Process, April 30th, 1953	$ 4,500.00	$ 1,500.00	$ 1,200.00	$ 7,200.00
Additional Cost to Complete		1,650	1,320.00	2,970.00
	$ 4,500.00	$ 3,150.00	$ 2,520.00	$ 10,170.00
7,000 Units Started and Completed	34,300.00	23,100.00	18,480.00	75,880.00

	$ 38,800.00	$ 26,250.00	$ 21,000.00	$ 86,050.00
Cost of Work in Process — May 31st, 1953	14,700.00	4,950.00	3,960.00	23,610.00
	$ 53,500.00	$ 31,200.00	$ 24,960.00	$109,660.00

	Closing Work Process Inventory	Finished Goods Inventory	Total
Factory Service Included @ 80%	$ 3,960.00	$ 19,800.00	$ 23,760.00
Factory Service Calculated @ 60%	2,970.00	14,850.00	17,820.00
Difference to be Adjusted	$ 990.00	$ 4,950.00	$ 5,940.00
Dr. Applied Mfg.	$ 5,940.00		
Cr. Work in Process		$ 990.00	
Cr. Finished Goods Inventory		4,950.00	

COMMENTS

This is not a difficult process cost problem, but some students erred in not answering the question asked in the (a) part by neglecting to detail the dollars assigned to each of the three elements of cost for finished production, and to the closing inventory.

Another common error was to use an average cost basis for allocating the dollar value. The examiner thought the question was clearly worded.

ACCOUNTING II — 1953 EXAMINATION

Comments by J. D. CAMPBELL, C.A., R.I.A.

QUESTION VII (15 marks)

The following are the balance sheets of two companies in the same line of business as at 31st December, 1952:

Assets

	Beta Co. Ltd.	Ajax Co. Ltd
Current Assets		
Cash	$ 129,000.00	$ 39,000.00
Dominion of Canada bonds	75,000.00	25,000.00
Accounts Receivable	127,000.00	98,000.00
Less — allowance for doubtful debts	(12,100.00)	(9,600.00)
Inventories—merchandise	200,000.00	225,000.00
—supplies	10,000.00	9,000.00
Prepaid—insurance	7,400.00	3,600.00
—taxes	2,700.00	5,000.00
	$ 539,000.00	$ 395,000.00
Fixed Assets		
Land	$ 90,000.00	$ 100,000.00
Buildings	145,000.00	153,000.00
Less — accumulated depreciation	(56,000.00)	$ 65,000.00)
Machinery and equipment	179,00.00	211,000.00
Less — accumulated depreciation	(27,000.00)	(30,000.00)
	$ 331,000.00	$ 369,000.00
Other Assets		
Goodwill, patents, etc.	$ 30,000.00	$ 40,000.00
	$ 900,000.00	$ 804,000.00

Liabilities and Capital

Current Liabilities		
Bank Loan	$ 40,000.00	$ 50,000.00
Accounts payable	100,000.00	150,000.00
Income taxes payable	50,000.00	25,000.00
	$ 190,000.00	$ 225,000.00

Capital and Surplus		
Capital Stock — 40,000 shares	$ 400,000.00	$ 400,000.00
Surplus	195,000.00	150,000.00
Net Profit for the year	115,000.00	29,000.00
	$ 710,000.00	$ 579,000.00
	$ 900,000.00	$ 804,000.00
Sales for the year	$2,000,000.00	$1,125,000.00
Cost of goods sold for the year	$1,600,000.00	$ 843,750.00

REQUIRED:

Compute, and describe briefly the significance of, the various ratios and comparative figures which are useful in making a comparison of the two companies. (A minimum of eight ratios are required.)

SOLUTION TO QUESTION VII:

	Ajax Co.	Beta Co.
Current ratio	2.8	1.75
Liquidity ratio	1.67	.68
Proprietory ratio	79%	72%
Earnings on total capital	12.8%	3.6%
Earnings on proprietary capital	16.2%	5%
Turnover of all capital	222%	140%
Number of days credit sales in receivables	23.2 days	31.7 days
Merchandise turnover	8 times yearly	3.75 times yearly
Operating ratio	80%	75%
Margin percentage	20%	25%
Net profit ratio	5.75%	2.58%

The interpretation of the above ratios will require a classification of the ratios into groups to bring out relative strength of liquid position the earnings position and the relative significance of turnover.

COMMENTS:

The ratios required in the answer to this question were by no means standardized and where the student indicated a knowledge of the various ratios which might have been used, the alternatives were accepted.

In the majority of cases, the ratios dealing with the liquidity of the firms were satisfactory, with the exception that only a limited number presented information in respect to the merchandise turnover and the nature of the receivables.

The earnings picture was not covered very satisfactorily from the standpoint of its relationship to the balance sheet items although the ratios dealing with the profit and loss statement were reasonably satisfactory.

In a large number of cases, the student merely presented the ratio without any indication as to its interpretation in the particular case in question. In certain instances, an explanation was given as to what the ratio purported to disclose, with no reference as to its application to the companies in question.

Some mechanical miscalculations were encountered as is customary in a problem of this nature.

Thirty-four students failed to attempt this question and of those who did attempt it, an average of 8 marks was attained. This low average was a reflection primarily of the failure on the part of the student to deal with other than the working capital position. Most of the students answering the question failed to give due consideration to the earnings picture, as well as the long term financial status.

QUESTION VI (10 marks)

The A Company Limited was incorporated under The Companies Act, 1934
(i) 200,000 shares preferred stock; par value $100.00 per share.
(Canada) on 31st March, 1951 with an authorized capital stock of:
(ii) 100,000 shares common stock; no par value.

The following transactions took place during the year ended 31st March, 1952:

(i) 6 shares of common stock were issued to the incorporating directors at $20.00 each for cash.

(ii) 100,000 shares of preferred stock were issued at 102, on which calls of $70.00 per share were made and received in cash prior to 31st March, 1952.

(iii) 50,000 shares of common stock were issued for land and buildings taken over at a figure of $1,500,000.00 An appraisal was made of the land and buildings subsequent to acquisition and they were valued at $1,750,000.00, which was recorded in the books of the company.

(iv) 20,000 shares of common stock were issued for cash at $35.00 per share. 15% of the cash received was credited to distributable surplus as per resolution of the directors.

The following transactions re capital stock took place during the year ended 31st March, 1953.

(i) An additional call on preferred shares of $20.00 per share was made and all payments received except for $500.00.

(ii) 1,000 shares of common stock were issued for patents and copyrights taken over from one of the directors, valued at $25,000.00.

REQUIRED:

Prepare the shareholders' equity section of the balance sheet of the A Co Ltd. as at 31st March, 1953, assuming that the accumulated earnings retained in the business to that date were $10,000.00.

SOLUTION TO QUESTION VI:

A Company Limited as at 31st March, 1953

Capital and Surplus			
Capital			
Authorized			
200,000 preferred shares, $100.00 par value			
100,000 common shares, no par value			
Issued			
Preferred			
100,000 preferred shares		$10,000,000.00	
Less uncalled at 1st April, 1952	$ 3,000,000.00		
Calls made during year	2,000,000.00		
	1,000,000.00		
Add unpaid calls at 31st March, 1953	500.00	1,000,500.00	$ 8,999,500.00
Common			
70,000 shares at 1st April, 1952		$ 2,095,120.00	
Add 1,000 shares issued during year for patents and copyrights		25,000.00	2,120,120.00
			$11,119,620.00
Surplus			
Appraisal surplus at 1st April, 1952 (unchanged during year)		$ 250,000.00	
Premium on issue of preferred shares		200,000.00	
Distributable surplus		105,000.00	
Earned surplus as per attached statement		10,000.00	565,000.00
			$11,684,620.00

COMMENTS:

Eighteen students failed to attempt this question and an average of 6 marks was attained by those attempting it.

As stated in the requirement the shareholders equity section of the balance sheet was required in answer to this question. This required that attention be paid to the form of the statement and that care be exercised in the classification of the various items.

Inasmuch as the issue of shares payable by installments or calls are excluded from the course material in Accounting II, no penalty was imposed covering this aspect.

at

of
52.
en
nd
00,

re.
per

1st

all

en

td.
he

00

00
00

00
00

as

et
e
as

n